BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF DELAWARE

IN THE MATTER OF THE APPLICATION OF ARTESIAN WATER COMPANY, INC. FOR AUTHORITY TO INCREASE RATES AND CHARGES FOR WATER SERVICE (FILED April 12, 2014)	))))))	PSC DOCKET NO. 14-132

BRIEF ON EXCEPTIONS OF CHRISTIANA CARE HEALTH SERVICES, INC. TO FINDINGS AND RECOMMENDATIONS OF THE HEARING EXAMINER

Todd A. Coomes
Richards, Layton & Finger, P.A.
One Rodney Square
920 North King Street
Wilmington, Delaware 19801
T: (302) 651-7500
E: coomes@rlf.com

June 22, 2015

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BRIEF ON EXCEPTIONS OF CHRISTIANA CARE HEALTH SERVICES, INC. TO FINDINGS AND RECOMMENDATIONS OF THE HEARING EXAMINER

Christiana Care Health Services, Inc. ("CCHS") submits this Brief on Exceptions to the Findings and Recommendations of the Hearing Examiner (the "HE Report") in the above-referenced proceeding, as issued on June 2, 2015. Pursuant to Commission Rule of Practice and Procedure 2.19.1.5, CCHS respectfully requests the opportunity to present its exceptions through oral argument.

1. CCHS's exceptions are limited to the Hearing Examiner's rate design recommendations (Section X of the HE Report), and specifically the Hearing Examiner's recommendations with respect to the allocation of purchased water and pumping power expenses.
2. As set forth in CCHS' Answering Brief ("CCHS AB"), CCHS seeks to adjust the Cost of Service Study ("COSS") of Artesian Water Company, Inc. ("AWC") by appropriately allocating purchased water and pumping power expenses by what drives these costs, not the arbitrary allocation to the "base" cost category as asserted by AWC. (CCHS AB at 1.) Not only are CCHS' recommended adjustments supported by the testimony of its expert, Brian C. Collins (*see* Exhibit 19 ("Collins"), pgs. 4-5), but AWC's own documents and testimony at the evidentiary hearing reflect that these costs are more than "base" costs.

3. Notwithstanding the record as presented in the hearing below and the burden upon AWC to show that its proposed rates are just and reasonable, the Hearing Examiner recommends that this Commission approve AWC's rate design as to purchased water and pumping power expenses. (HE Report at ¶¶ 244 and 247.) For the reasons presented herein, the Commission should not follow the Hearing Examiner's recommendation.

Allocation of Purchased Water Expenses

4. First, the record reflects that during the evidentiary hearing AWC's rate consultant agreed that Artesian buys "purchased water" to meet its demand in excess of its own well supply, including to meet maximum day or peak hour demand. (Tr. 220:18-21.) Indeed, AWC further admitted in its briefing that "all customers' water demands are met with both purchased water and water from the Company's own water sources." (AWC Op. Br. at 41.) Notwithstanding this admission, AWC's COSS uses different allocation factors for the two sources.

5. The principle AWC assertions that the Hearing Examiner agreed with were (1) AWC's purchase water contract supports allocating purchased water to the "base" component only; (2) AWC's purchased water allocation is consistent with "causation"; and (3) there are no excess capacity or other costs for purchased water.[1] (HE Report at ¶¶ 242-244.) Each of these assertions lacks merit.

6. First, AWC's characterization of its purchased water contract with the Chester Water Authority ("CWA") in its briefing is incomplete. As Artesian's Manager of Engineering, C. Thomas deLorimier testified:

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[1] In the HE Report, the Hearing Examiner also cites from AWC's briefing that "[t]he effect of CCHS' proposal is to shift purchased water and purchased water costs to public fire service charges - which in effect means shifting costs to the Residential class." To what effect this citation influenced the Hearing Examiner's recommendation is unclear. Regardless, the allocation basis within the COSS should be consistent and not changed to shift costs to one class over another.

> The agreement currently obligates the CWA to provide up to 6.0 MGD to AWC. In return, the Company must purchase a minimum of 2.0 MGD on any given day and an average of 3.0 MGD on a yearly basis. The agreement allows AWC to purchase greater quantities of water as needed.

(Exhibit 4, 11:5-8.) Thus, the purchased water contract, and the rate paid under it, allow for up to 6 MGD of water to be taken as needed. This "extra capacity" should be properly reflected in the allocation.

7. Second, AWC's own historical records reflect that purchased water volumes vary on a monthly basis. This is contrary to AWC's rate design expert John Gustella's testimony at the evidentiary hearing that such purchases were done on a "steady basis" (Tr. 220:21-22) or AWC's briefing characterization of the quantities being "virtually constant throughout the year." (AWC RB, pg. 50.) CTD Exhibit 16-S (attached) reflects 6 months of actual data from AWC for Purchased Water amounts, from October 2013 to March 2014, during which time the Purchased Water amounts vary from 3.425 MG/day to 2.99 MG/day. This reflects that purchased water is more than just a "base" component, and is being used by AWC in a variable manner to meet its system demands.

8. Lastly, AWC's statement that "[t]here is no such design criteria or operational inefficiency with respect to purchased water, and therefore purchased water does not involve excess capacity or cost that must be assigned to the customer classes" is an unsupported assertion in its reply brief that should be given no weight. Significantly, there is no testimony or other evidence as to the purchased water rate basis within the CWA contract and what additional rate cost was included to provide the 6 MGD allowance.

9. Accordingly, purchased water is more appropriately classified as Allocation Factor 4, Base/Maximum Day/Peak Hour, not Allocation Factor 1, Base. At a minimum, purchased water expenses should be classified as Allocation Factor 2.

Allocation of Pumping Power Expenses

10. The AWC assertions that the Hearing Examiner found persuasive were that (1) AWC's rated design is appropriate as "all customers pay more for purchased power costs on maximum days because they buy more water on those days"; and (2) no power study was performed and CCHS' allocation is inconsistent with the AWWA Manual. (HE Report at ¶¶ 245-247.) Each of these assertions lacks merit.

11. First, AWC's assertion that purchased power expenses are appropriately designed by customers paying more on maximum days is inconsistent with the very industry manual it cites for rate design. With respect to the allocation of pumping power expenses in the AWWA Manual, the manual states: the extent to which power costs should be allocated to extra capacity depends on the variation in demands incurred in pumping. (Ex. 55 American Water Works Association's Manual M-1, 6th Ed., *Principles of Water Rates, Fees and Charges*, 65.)

12. AWC recognized in its Post-Hearing Opening Brief that allocating power costs beyond the base component is proper, but that it did not know when the peak demand occurred. (AWC Op. Br. at 42.) Yet, in its COSS, while AWC classifies pumping plant investment, accumulated pumping plant depreciation, and non-electrical pumping plant operating and maintenance expenses into Allocation Factor 4, it places pumping plant power costs in Allocation Factor 1. (Collins 7:3-14.) This distinct treatment of power costs is inappropriate.

13. The reason for classifying pumping power expenses as Allocation Factor 4 is self-evident: AWC's COSS reflects that its pumping facilities are designed and operated to meet average day, peak day and peak hour requirements. (*Id.*). The pumps, in turn, must consume electric power at rates sufficient to meet the peak day and peak hour demands. (*Id.* at 7:9-10.) This was recognized by AWC's Mr. deLorimier, at the evidentiary hearing:

Q: Mr. deLorimier, does Artesian design its pumping plant equipment using the maximum day or peak hour requirement?
A: Yes, we do.
Q: Is electrical demand highest during the maximum day or peak hour?
A: Not necessarily.
Q: Is it generally?
A: It is in that general vicinity.

(Tr. 288:16-24.) Mr. Gustella also recognized that AWC uses more energy on a maximum capacity day than an average day. (Tr. 228:13-18.) Accordingly, as the power costs are higher due to the maximum day and peak hour demands, this cost should be included in Allocation Factor 4.

14. While AWC may not know the precise time the peak demand for pumping power occurs, allocating no component of these costs to peak demand is wrong and produces erroneous results in the cost of service analysis. Thus, consistent with this knowledge, the pumping power expenses should be allocated to more than just the base category, as recommended by CCHS.

CONCLUSION

Accordingly, CCHS respectfully requests that its exceptions to the HE Report be accepted by the Commission and the Company's rate design be revised accordingly.

Respectfully submitted,

Todd A. Coomes
Richards, Layton & Finger, P.A.
One Rodney Square
920 North King Street
Wilmington, Delaware 19801
T: (302) 651-7500
E: coomes@rlf.com

June 22, 2015

ATTACHMENT

CTD Exhibit 16-S
June 30, 2014

TEST PERIOD WATER SUPPLY NEED

	Number Customers	Per Customer Delivery (gpcd)	Average Daily Demand (gpd)	Monthly Demand (MG)	Monthly Wellfield Pumpage (MG)	Purchased Water (MG)
Oct-13	79,560	243	19,333,080	599.33	506.72	92.61
Nov-13	79,617	233	18,550,761	556.52	453.77	102.75
Dec-13	79,706	235	18,730,910	580.66	481.01	99.65
Jan-14	79,775	242	19,305,550	598.47	501.34	97.13
Feb-14	79,832	242	19,319,344	540.94	449.09	91.85
Mar-14	79,913	239	19,099,207	592.08	490.57	101.51
Apr-14	79,979	250	19,994,860	599.85	504.15	95.70
May-14	80,046	268	21,452,296	665.02	566.13	98.89
Jun-14	80,112	289	23,152,460	694.57	598.87	95.70
Jul-14	80,179	306	24,534,701	760.58	661.69	98.89
Aug-14	80,245	281	22,548,901	699.02	600.13	98.89
Sep-14	80,312	260	20,881,026	626.43	530.73	95.70
MG				7513.46	6344.19	1169.27
MGD				20.58	17.38	3.20

Oct thru March are actual
April thru Sep are projected
Per customer delivery for 2014 based upon 5-year average